Revenue
New Issue

City of San Antonio, Texas
San Antonio International Airport

Ratings
Airport System Revenue Refunding Bonds, Series 2003-A (Non-Alternative Minimum Tax [AMT]) .... A+
Airport System Revenue Refunding Bonds, Series 2003-B (AMT) .... A+

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New Issue Details
$8,330,000 Airport System Revenue Refunding Bonds, Series 2003-A (Non-AMT) and $3,285,000 Airport System Revenue Refunding Bonds, Series 2003-B (AMT), are expected to price the week of March 17 via negotiation led by Morgan Stanley and Salomon Smith Barney, Inc. Both series of bonds mature in 2009 and have interest payments due on Jan. 1 and July 1 of each year.

Purpose: Bond proceeds will be used to refund a portion of the series 1992 bonds, fund a debt service reserve, and pay costs of issuance.

■ Outlook
The Rating Outlook for San Antonio International Airport's (SAT) airport system refunding revenue bonds is Stable. Relatively strong passenger trends in the post-Sept. 11, 2001 environment should continue to produce financial margins adequate to accommodate increasing general airport revenue bond (GARB) debt service requirements consistent with the current 'A+' rating. Historically stable passenger demand from a diverse pool of airlines points to dependable cash flow and solid debt coverage for the GARBs' rating. Low to moderate amounts of additional debt are expected, but there is no risk of overleveraging at this rating level.

■ Rating Considerations
The 'A+' rating on the GARBs reflects the strong origination and destination (O&D) traffic base, at 90% of total enplanements; solid historical financial operations; a low cost structure; and the diverse balance of airlines serving SAT. These strengths largely mitigate the concerns, which include an uncertain post-Sept. 11 aviation environment and the airport's relatively low to moderate cash position.

SAT serves the growing economy of Texas' third largest city. While SAT is only 70 miles from Austin's airport and 180 miles from Houston's two airports, its consistent O&D traffic indicates a separate and distinct service area from these competing airports.

SAT also enjoys a diversity of airlines. Southwest Airlines Co. (Southwest) is its biggest carrier, with a 35% share in 2002. The next largest carriers were American Airlines, Inc., 19%; Delta Air Lines (Delta), 14%; and Continental Airlines, Inc. (Continental), 11%. Although enplanements were flat from 1998–2002, SAT's post-Sept. 11 passenger activity has shown signs of recovery. Year-to-year enplanements for the fourth quarter of 2002 were up 12.5% over the fourth quarter of 2001. Additionally, the December 2002 enplanements nearly equaled those of December 2000. Fitch Ratings believes the current passenger forecast may be cause for optimism, but SAT's low cost structure and moderate degree of passenger finance charge (PFC) leveraging mitigate this concern.

Financial operations have produced strong net revenue debt service coverage, with a high and low of 2.05 times (x) and 1.71x, respectively, in fiscal years 1998–2002. These healthy financial figures have resulted in a low cost structure, with the average airline cost per enplaned passenger (CPE) at $4.14 in 2002. With borrowing needs assessed through fiscal 2011, the forecast does not indicate that CPE likely will surpass $4.78, giving SAT financial flexibility to raise rates and charges to airlines in the future. Net revenue debt service coverage, minus rolling airline credits that are employed in the use and lease agreement, is expected not to dip below 1.50x through fiscal 2011, well above the 1.25x rate covenant.

March 20, 2003

Strengths

- Growing service area.
- High O&D traffic levels (90%).
- Low CPE levels.
- Diverse pool of airlines.
- Manageable borrowing needs.

Risks

- Concentration in tourism industry, although the broader economy is diversifying.
- Lower than average liquidity.
- Flat passenger growth in past five years.

GARB Master Indenture Changes

Airport System Revenue Bonds

Master Resolution Changes

The first automatic amendment date occurs on the date of delivery of the series 2002 GARBs. Although there are several changes, Fitch does not consider them material enough to affect the rating level for the GARBs. The second automatic amendment date, the date on which all pre-2001 parity debt is no longer outstanding, is expected to occur on July 1, 2006. The significant amendment to this date is the deletion of the maintenance tax provision for the airport system's operations and maintenance (O&M) expenses. The city never utilized this feature, and Fitch does not view this as a major credit risk, as the city will continue to reserve 90 days of airport system O&M budgeted expenses for liquidity, which is currently approximately $6.0 million. Also, at the second automatic amendment date is the dissolution of the special contingency fund, and its $300,000 balance will be transferred to the capital improvement fund.

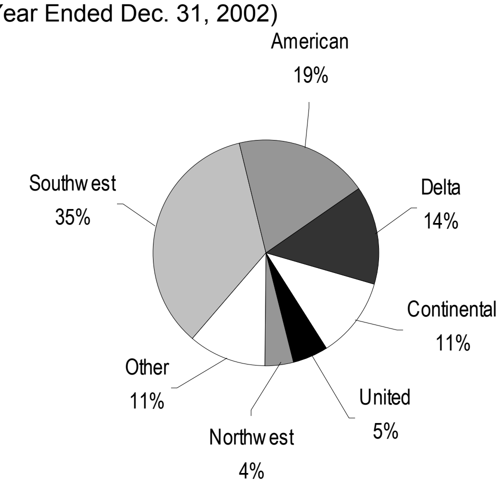
Security

Airport System Revenue Bonds

Rate Covenant: The city pledges to set rates, fees, and charges that will produce in each fiscal year gross revenues at least sufficient to pay the operating expenses and provide 1.25x aggregate debt service coverage.

Debt Service Reserve Fund: The new master indenture requires reserves in the amount of average annual debt service.

Airline Market Share
(Year Ended Dec. 31, 2002)



Note: Numbers may not add to 100% due to rounding.

Airline Use and Lease Agreement

The city has executed use and lease agreements with eight of the major airlines serving the airport, which expire on Sept. 30, 2006, or the date of beneficial occupancy of Concourse B. Signatory carriers include Aerolitoral, Continental, Delta, Mexicana Air, Midwest Express Airlines, Northwest Airlines, Southwest, and United Air Lines Inc.

The airport's agreements with its signatory carriers are based on a compensatory rate-making methodology. Landing fees and terminal rentals are charged by cost center, and the fees and rental payments cover all costs, including debt service requirements associated with the cost center. "Use it or lose it" clauses are included in the terms, which give SAT rights to reallocate its assets if an airline does not meet utilization standards. Although the agreements are compensatory, the airport shares surplus revenues with the airlines after the 125% rate covenant is satisfied. Of surplus revenues, 50% are refunded to the signatory carriers as a credit to the ensuing year's payments, and 50% are deposited into the airport's capital improvement fund. Landing fees, which are set by the city, are reviewed annually and adjusted on Oct. 1 of every year.

Enplanements

Although SAT experienced consistent enplanement growth during the 1990s, from 2.9 million in 1993 to 3.3 million in 2002, passenger activity has been flat for the past five years. SAT came close to meeting projected enplanements for the series 2002 bonds, which was revised after Sept. 11, 2001. Total fiscal 2002 enplanements equaled 3.33 million, compared to the forecast of 3.41 million.

The base case enplanements forecast calls for air traffic to return to pre-Sept. 11, 2001 levels in calendar 2003 and grow an average 5.6% from 2003–2005 and 3.5% annually from 2002–2011. O&D levels are forecast to remain stable at 90%. Fitch considers this forecast optimistic.

■ Financial Operations

SAT employs a compensatory use and lease agreement, which drives its cost structure, with a 50%–50% revenue sharing component after debt obligations are met. Despite its compensatory status, SAT has relatively low liquidity levels, with $12.5 million in unrestricted cash and investments for fiscal 2002. SAT also has $9.8 million in its O&M fund as of Jan. 31, 2003. Somewhat mitigating low liquidity levels is SAT's financial flexibility, exhibited in below-industry-average airline CPE levels. In fiscal 2002, SAT's CPE was $4.14, and it is not expected to surpass $4.78 through the forecast period, allowing the airport to adjust rates and charges upward to make up for any unexpected revenue shortfall.

The airport financial operations for the past five fiscal years (1998–2002) reflect fiscal balance despite enplanement declines. Fiscal 2002 had total operating revenues of $47 million and $22 million of O&M expenses, yielding $25 million in net revenues. Revenue growth has kept pace with O&M expenses (both up 15% from fiscal 1998), and this has provided SAT with a solid financial cushion each year. Additionally, SAT derived 68% of its revenue from non-airline sources in fiscal 2002. Non-airline revenue, represented mostly by concessions, parking fees, and property leases, has not dipped below 65% of total operating revenue since fiscal 1998. Even if actual passenger activity levels are below forecast levels, Fitch believes SAT's competitive CPE levels will absorb the difference.

SAT's post-Sept. 11, 2001 enplanement assumptions project $50 million of gross revenues in fiscal 2003 and steady growth that will yield $80 million in fiscal 2011. Two revenue spikes in fiscal years 2005 and 2008 coincide with the opening of additional revenue-producing assets. Operating expenses are expected to grow at a slow and steady pace, producing solid net revenue coverage with adequate resources available, if needed, for the PFC double-barrel pledge. Projected net revenue debt service coverage fluctuates from a high 2.30x in fiscal 2004 to a low of 1.80x in fiscal 2006 through the forecast from fiscal years 2002–2011. After senior debt is paid, SAT cash flows should provide adequate cushion, averaging roughly $15 million annually, to cover the double-barrel subordinate net revenue pledge for the PFC bonds, although this pledge is not expected to be needed. This forecast assumes future debt issues of $13.4 million each in fiscal years 2004 and 2007. At issuance, maximum annual debt service occurs in fiscal 2013 with $19.22 million before receding to level debt service of $8.3 million through maturity.

■ Capital Plan

SAT is in the first year of a 10-year, $425.6 million capital improvement plan (CIP; for fiscal years 2002–2011) that accommodates the expected continued passenger growth at SAT and rehabilitates facilities at SAT and Stinson Field, SAT's general aviation airport. The current CIP projects reflect SAT's 1998 master plan study, which determined that airfield and terminal capacity is insufficient and also considered adjustments in project schedules as a result of the events of Sept. 11, 2001. Major projects include $177 million for several runway and taxiway projects and $124 million for two new terminal concourses to replace the outdated Terminal 2. Also included is the $71 million expansion of SAT's parking facilities and roadway system. The projects included in the CIP are expected to be funded with $49 million in pay-as-you-go PFC revenue, $78 million in PFC-secured debt, $126 million in GARBs, $81 million of airport cash, and $100 million in federal grants.

For additional information, see Fitch Research on "San Antonio, Texas," dated March 4, 2002, and "City of San Antonio, Texas," dated April 17, 2001, both available on Fitch's web site at www.fitchratings.com.

Moody's Investors Service
Global Credit Research

Municipal Credit Research
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Moody's Rating

Issue	Rating
Airport System Revenue Refunding Bonds, Series 2003-A and Series 2003-B (Alternate Minimum Tax Bonds)	A1
Sale Amount $11,615,000	
Expected Sale Date 03/18/03	
Rating Description Revenue	

MOODY'S ASSIGNS A1 RATING TO CITY OF SAN ANTONIO AIRPORT SYSTEM REVENUE REFUNDING BONDS

Ratings Affirmed for $194 Million Parity Bonds

Opinion

Moody's Investors Service has assigned an underlying A1 rating with a stable outlook to the City of San Antonio, Texas, Airport System Revenue Refunding Bonds, Series 2003 - A and Series 2003 - B. The Series 2003 bonds will refund approximately $11 million outstanding Series 1992 bonds for estimated net present value savings of $750,000 or 6.5% of refunded bonds. The bonds are secured by a lien on gross revenues of the airport system, and are issued on parity with $194 million revenue bonds. In addition, Moody's has affirmed the A2 rating on the Passenger Facility Charge (PFC) and Subordinate Lien Airport System Revenue Bonds with an outstanding amount of $37.5 million. The ratings reflect the strong economy of the airport system's service area, it's diverse carrier mix, the modest debt and competitive costs after funding of the capital program, and a strong financial position.

PASSENGER TRAFFIC RECOVERY SLIGHTLY STRONGER THAN THE NATIONAL AVERAGE; STRONG O&D MARKET

Passenger traffic at the airport for 2002 declined approximately 3% from the same period in 2001, which is slightly stronger than the national average decline of 5% for the same period. Moody's expects that the future passenger traffic recovery at San Antonio will depend on the performance of the national economy and the financial position of the airlines. The airport serves a strong origin and destination (O&D) market, with 97% of passengers beginning or ending their trip in San Antonio. Passengers increased approximately 2% per year from 1992 to 2002, however, passengers declined in 2001 and 2002 primarily as a result of the September 11, 2001 terrorist attacks and the slowing of the national economy. The airport benefits from a balanced mix of carriers with Southwest Airlines (rated Baa1), which maintained service levels after September 11, representing about 35% of enplanements. American Airlines (rated Caa2) and Delta Air Lines (rated Ba3, Watchlist for possible downgrade) represent approximately 19% and 14% of total enplanements, respectively, with the balance distributed among the other carriers. While airlines have experienced a clear decline in credit quality since September 11, San Antonio's solid O&D market and diverse carrier mix limit its vulnerability to airline credit risk.

AIRPORT SERVES A GROWING AND DIVERSE METROPOLITAN AREA

The airport serves the nation's ninth largest city. San Antonio's (GO rating of Aa2) economy is diverse, containing a significant hospitality sector, a sizable military presence, large manufacturing concerns with an increasing aeronautical presence, growing business service operations, and an expanding health care component. The, the city of San Antonio is the largest tourist destination in Texas attracting over eight million people annually.

The San Antonio metropolitan area is experiencing an economic resurgence. Continued moderate growth on the City of San Antonio's $40 billion taxbase, which has averaged 6.8% growth annually for the last five years, is expected to continue for the foreseeable future. In the midst of an economic resurgence, ongoing management efforts are expected to lead to diversification into the industrial, transportation, and warehousing sectors to combine with the current growth in the technology and medical care sectors. While the tourism, commercial, and military sectors remain important to the economy, diversification is expected to lessen the reliance on these traditional economic drivers.

Recently, San Antonio has been selected as a site for a new Toyota manufacturing plant, which will be the company's 6th plant in North America. Construction is expected to begin this summer and is expected to begin production by the summer of 2006. Toyota is expected to bring anywhere from 1,800 to 2,000 jobs to the area, and the new plant will carry a value estimated at $400 million for the first phase and $800 million with the second phase. Additional development is also expected to occur as suppliers locate to the area to serve the plant.

FINANCIAL OPERATIONS ARE STRONG

The airport operates under a compensatory rate making methodology that also incorporates a revenue share mechanism with the signatory airlines. Gates are leased under a mix of exclusive and preferential use arrangements. Airline costs per enplaned passenger have increased to $4.10 in 2002 from $3.60 in 2001, and are expected to remain below $5.00 through 2011. Debt service coverage has averaged 1.97 times over the past three years, and was 2.05 times for fiscal ending September 30, 2001, reflecting some revenue loss - particularly parking - and increased O&M expenditures after September 11. The airport maintains strong liquidity, with unaudited working capital of more than $45 million at the end of fiscal 2002.

Outlook

The stable outlook reflects Moody's expectation that the airport's solid O&D market will enable it to absorb the current reductions in traffic, and enable a return to historic enplanement levels during the next five years.

KEY STATISTICS

Type of airport: Origination & Destination

Enplanements, CY 2002: 3,349,146

Decline in enplanements, CY 2001-2002: 2.8%

Percentage of O&D traffic: 97%

Largest carrier: Southwest Airlines (Baa1), 35.3% of 2002 enplanements

Debt, including current issue, per 2002 enplaned passenger: $57.15

Debt service coverage by FY 2001 net revenues (including airline rental credit): 2.05x

Utilization: 2.23

Debt outstanding (including current issues): $194 million

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City of San Antonio, Texas

San Antonio International Airport

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Credit Profile
$8.33 mil Rfdg Arpt Sys Rev Bonds (San Antonio Intl Arpt) Series 2003A dtd 04/01/2003 due 09/30/2009
A+
Sale date: 18-MAR-2003

$3.285 mil Rfdg Arpt Sys Rev Bonds (San Antonio Intl Arpt) Series 2003BAMT dtd 04/01/2003 due 09/30/2009
A+
Sale date: 18-MAR-2003

AFFIRMED
San Antonio, Texas
$20.000 mil. San Antonio (San Antonio Intl Arpt)
A+

$38.000 mil. Arpt Sys Imp Rev Bonds
Series 1996 dtd 07/15/1996 due 07/01/1999-2016
AAA / A+ (SPUR)

$17.795 mil. Arpt Sys Imp Bonds
Series 2001 dtd 08/15/2001 due 07/01/2014-2016
AAA / A+ (SPUR)

$92.470 mil. Arpt Sys Imp Bonds
Series 2002 dtd 03/01/2002 due 07/01/2027
AAA / A+ (SPUR)

$37.575 mil. Subord Passenger Fac Charge Bonds
Series 2002 dtd 03/01/2002 due 07/01/2027
AAA / A- (SPUR)

OUTLOOK:
STABLE

Rationale

The ratings on San Antonio, Texas' airport system's bonds, issued on behalf of San Antonio International Airport, reflect the low airline costs and strong origin and destination market, offset by a significant capital program that will result in high debt per enplaned passenger. More specifically, the ratings are based on the following factors:

- The airport has a strong origin and destination market (90%-95%) and good diversity of carriers with Southwest, American, and Delta accounting for 68% of enplanements in 2002.
- Enplanements have grown at an average annual rate of 2.8% during the past 10 years, reaching 3.4 million in 2001. Enplanements, however, declined in 2001 5.6% largely as a result of the events of Sept. 11. In 2002, enplanements had declined an additional 2.7% compared to 2001 as a result of the continuing effects of the events of Sept. 11, as well as the overall weakening in the economy. The 2.7% decline in 2002 was better than the average for all U.S. airports for the year—the average being 4.7% lower on the year.
- The airport has a low cost structure with airline costs per enplaned passenger at a low of $4.10 per enplaned passenger in 2002 despite the decline in enplanements. The 10-year forecast provided in connection with last year's new money issuances anticipates that the cost will peak at $4.78.
- Debt service coverage was solid on the general airport bonds at 1.7x in 2002 (without including airline rental credits). The 10-year forecast anticipates that coverage will range from 1.51x-1.77x Debt service coverage on the PFC and subordinate revenue bonds was 2.32x in 2002 and is anticipated to average 1.78x during the forecast period. Standard & Poor's calculates the debt service coverage for these bonds by adding the airport's net revenues and PFC collections together and dividing by all outstanding debt service, including the senior debt service.

Offsetting factors include the relatively high debt per enplaned passenger for a facility of this size (medium hub) and subordinate lien provisions that would allow coverage to decline to lower levels. Debt per enplaned passenger had historically been low in the $28-$30 range. However, with last year's debt issuances, debt per enplaned passenger jumped to $67 per enplaned passenger, which could rise further to $88 based on 2002 enplanement levels, given management's future debt issuance plans.

The 10-year capital improvement plan calls for $426 million in expenditures. This includes the demolition of the existing Terminal 2 and construction of two concourses. Additional projects include the renovation of the existing terminal, additional parking, roadway improvements, and extensions and improvements to two runways (along with supporting taxiways and aircraft apron). To help finance this plan, the airport began collecting a $3 PFC in November 2001. In total, the airport intends to issue $79 million in PFC debt and $117 million in general airport revenue bonds, of which $37.6 million in PFC debt and $77.0 million in general airport revenue bonds were issued in 2002; the remaining debt will be issued between 2003-2007. Additional funding for this project will come from federal grants ($100 million), the airport's own funds ($81 million), and pay-as-you-go PFCs ($49 million).

Bond proceeds from this issue will be used to refund airport system bonds. The airport system bonds are secured by a pledge and lien on the gross revenues of the airport. Bondholders will benefit from a fully funded debt service reserve fund; however, it is only funded based on average annual debt service rather than the maximum annual debt service. The additional bonds test requires either a certificate from the City of San Antonio stating that net revenues from the prior fiscal year or in any 12 consecutive months out of the past 18 months were at least equal to 1.25x maximum annual debt service. Instead of obtaining a certificate from the city, the airport can obtain a consultant's certificate stating that the three-year projected net revenues are 1.25x debt service requirements.

The PFC and subordinate-lien airport system revenue improvement bonds are secured by a combined pledge of PFC collections and a subordinate lien on airport system net revenues. The city covenants to budget during each fiscal year that such PFC revenues during such fiscal year will provide an amount equal to 1.25x the annual debt service requirements. The PFC additional bonds test is based on either a one-year historic coverage test or a three-year projected test that PFC revenues are sufficient to provide 1.25x the debt service requirements on the PFC bonds. While this rate covenant and additional bonds test level is lower than most PFC bond issuances that have covenants of 1.50x, bondholders benefit from a subordinate lien pledge of the airport's net revenues. Subordinate lien bonds are subject to a rate covenant of 1.10x the annual debt service obligations, and additional bonds backed by the subordinate lien can only be issued if historic subordinate lien net revenues are sufficient to provide 1.10x maximum annual debt service coverage. The calculation of subordinate lien debt service for the rate covenant and the additional bonds test is more liberal than in most subordinate-lien transactions. Subordinate lien debt service is calculated based on net revenues after the payment of senior debt service obligations rather than net revenues of the airport system divided by all debt service obligations (senior and subordinate).

Outlook

The stable outlook is based on the airport being able to recover in the near term from its recent declines in enplanements and its ability to attain projected financial results given its large capital program.

Issuer

The City of San Antonio is responsible for the operation of the airport system. The airport system consists of San Antonio International Airport and Stinson Municipal Airport (a general aviation facility). In 2002, Stinson Airport generated less than 1% of the system's revenues. Both airports are managed by the Department of Aviation. The City Council appoints a 12-member airport advisory committee to actively participate in policy matters for the airport system before those matters are presented for consideration to the City Council.

Legal Provisions

General airport system revenue bond master ordinance.
With the series 2001 debt issuance, the airport created a new master

ordinance that is substantially similar to the prior one. The changes in the master ordinance will occur in two phases. Most changes will be enacted under the first amendment, which is expected to occur on the date when the aggregate principal amount of all outstanding parity debt obligations issued prior to 2001 constitutes less than 49% of all outstanding parity debt. This is expected to occur with the delivery of the forward refunding bonds in April 2003. The second amendment would take place once all parity debt obligations issued prior to 2001 are no longer outstanding (July 1, 2006). This second amendment will (among other items) call for the elimination of the provision that allows the city to levy an ad valorem tax to provide funds for the operation and maintenance fund. The airport has never had to rely on this ad valorem tax in recent history, so the elimination of this provision does not have a material effect on the airport's rating.

The bonds are secured by a first lien and pledge of gross revenues from the operation of the airport system. The bonds are on parity with the outstanding senior obligations. In addition, in April 2001, the city sold $50 million in series 2003 forward refunding bonds, which are expected to be issued and delivered on April 8, 2003.

The gross revenue pledge does not include any PFCs that may be collected. In November 2001, the airport began collecting a $3 PFC, but this was not pledged to the general airport system revenue bonds, as the airport also issues debt backed by PFC collections. Additionally, not included in the pledge of gross revenues are net rental payments that are currently pledged and used to meet debt service requirements on leased facilities. The airport has special facilities' debt of $4.8 million from a leased facility to Raytheon and $4.1 million from a leased facility to Cessna.

Bondholders benefit from a debt service reserve fund. However, the debt service reserve fund requirement is equal to the average annual debt service requirements on all outstanding parity obligations rather than the maximum annual debt service. In addition, should there be a deficiency in the debt service reserve fund or should the airport issue additional bonds, the airport can fund the debt service reserve fund to its requirements over a period of 60 months. With this issue, the debt service reserve fund will be funded at its requirements at closing.

All gross revenues that are received daily will be deposited into the revenue fund. Money from the revenue fund will be first used to pay debt service (monthly installments on principal and interest scheduled to come due); second, to replenish the debt service reserve fund to its required levels if necessary; then, the remaining money will be used to pay the airport's operating and maintenance expenses. All remaining funds will be deposited in the capital improvement fund. Money in the capital improvement fund can be used to meet any of the above-mentioned requirements or for paying the costs of other capital expenditures related to the airport system or any other purpose that is related to the airport system. The excess funds in the capital improvement fund are shared with the airlines pursuant to the provisions of the airline use and lease agreement.

The city has covenanted in the ordinance to operate the airport to obtain gross revenues sufficient to cover operating expenses and provide for 1.25x annual debt service requirements. The new master ordinance calls for the airport to hire a consultant if the airport should fail to meet its rate covenant.

The additional bonds is based on a projected airport consultant's report stating that the net revenues for the three consecutive fiscal years beginning the later of (a) the first complete fiscal year following the estimated date of completion and the initial use of all revenue-producing facilities to be financed with the parity obligations and (b) the first complete fiscal year in which the city will have scheduled payments of interest or principal that are not being paid out of bond proceeds are at least equal to 1.25x the annual debt service requirements of all outstanding parity debt (including the proposed bond issuance). In lieu of obtaining an airport consultant's certification, the airport can obtain a certificate from a financial officer showing that for the airport's most recent fiscal year or for any 12 of the most recent 18 months, the net revenues of the airport system were at least equal to 1.25x the maximum annual debt service on all parity obligations outstanding and proposed to be issued.

Completion bonds are allowed to be issued subject to a limit of 15% of the aggregate principal amount of the parity obligations initially issued to pay the cost of the capital improvements. Subordinate debt and special facilities debt can be issued without limit in the general airport system revenue bond master ordinance. However, the PFC master ordinance and first supplemental ordinance restricts subordinate debt issuances.

PFC master ordinance.
The PFC master ordinance is very much similar to the general airport system revenue bond master ordinance. Bondholders of the PFC and subordinate-lien airport system revenue bonds benefit from both a first lien pledge of PFCs and a subordinate-lien net revenue pledge of the airport system. Bondholders benefit from a debt service reserve fund that is funded in an amount equal to the average annual debt service requirement of all outstanding PFC obligations. Similar to the general airport system revenue bond master ordinance, the debt service reserve fund can be funded up over a five-year period, and any deficiency in the debt service reserve fund will be funded over a five-year period.

The flow of funds is such that all PFC revenues shall be credited daily as received into the PFC revenue fund. On a monthly basis, money will be transferred from the PFC revenue fund to the PFC bond fund to cover 1/6th of the interest and 1/12th of the principal payments coming due. Remaining funds will be used to meet the debt service reserve requirement (if necessary) before being transferred to the PFC capital improvement fund. The PFC capital improvement fund will be first used for any of the above-mentioned items. Then, remaining money will be used to pay the cost of PFC-eligible airport-related projects, and lastly, for any other purpose related to the airport system and permitted under applicable state and federal laws.

The city covenants to budget such that the expected receipt of PFC revenues during each fiscal year, together with any funds that are on deposit during such fiscal year in the PFC revenue fund or the PFC capital improvement fund from the prior fiscal year and available for the purposes of acquiring and constructing PFC eligible airport related projects, after payment of all costs to acquire and construct PFC-eligible airport-related projects with PFC revenues during such fiscal year, will provide an amount equal to 1.25x the annual debt service requirements during such fiscal year on all outstanding PFC obligations. The PFC additional bonds test is based on either a one-year historic coverage test or a three-year projected test that PFC revenues are sufficient to provide 1.25x debt service requirements on the PFC bonds.

The rate covenant and additional bonds test multiple of 1.25x is lower than most PFC bond issuances that are set at meeting a 1.25x coverage multiple. However, bondholders also benefit from a subordinate pledge of the airport system's net revenues. The city covenants that in the event that any parity PFC obligations that are also secured by a subordinate lien on net revenues remain outstanding and the city is no longer permitted by law to levy and collect a PFC in an amount sufficient to satisfy the PFC rate covenant, the city covenants that it will at all times fix, maintain, charge, and collect rates, fees, and charges from the operation of the airport system in an amount sufficient to produce subordinate net revenues at least equal to 1.10x the annual debt service requirements during each fiscal year on all then outstanding parity PFC obligations. The additional parity bonds secured by a combination of PFC collections and subordinate airport system net revenues can be issued if the city certifies that for the most recent complete fiscal year of any consecutive 12 months out of the past 18 months the subordinate net revenues were at least equal to 1.10x the maximum annual debt service requirements on all debt of the city that is secured by a parity subordinate net revenue pledge, including the proposed debt issuance. Any other debt that the city intends to issue that is secured in whole or in part by a parity pledge of subordinate net revenues can be issued only if the above-mentioned requirements are met. The calculation of coverage for both the rate covenant and the additional bonds test is more liberal than in other transactions. Standard & Poor's calculates the debt service coverage levels on subordinate transactions to be the net revenues of the airport system divided by all debt service requirements (senior and subordinate), whereas the bond ordinance calculates the coverage based on the net revenues of the airport system that remain after the payment of senior obligations divided by the subordinate debt service.

Airline Use and Lease Agreement

The city's signatory agreement went into effect on Oct. 1, 2001, for a five-year period expiring on Sept. 30, 2006. The new agreement is substantially similar to the prior one. The city has a signatory agreement in effect with nine airlines (Aeroliteral, American, Continental, Delta, Mexicana, Midwest Express, Northwest, Southwest, and United). Nonsignatory airlines operate under similar terms except the permit is monthly and no rental credit is given.

The airline rates and charges at the airport are primarily based on a compensatory structure. However, there are provisions for sharing of surplus revenues. The signatory airlines receive this as a credit to the terminal rents charged. Credits to the signatory airlines come from the capital improvement fund after all deficiencies in the flow of funds are met and a 25% coverage requirement is met. The remaining portion in the capital improvement fund is divided between the airlines and airport on a 50-50 basis.

In fiscal 2002, the landing fee for both signatory and nonsignatory airlines was 99 cents per thousand pounds of landed weight. The average terminal rental rate for signatory airlines was $33.50 per square foot as compared to $53.60 per square foot for nonsignatory airlines. In 2002, the total cost per enplaned passenger for all airlines was low at $4.10.

Airport Description

San Antonio International Airport is located on 2,600 acres, eight miles north of the city's downtown business district. The airport has three runways with the longest one measuring 8,502 feet. The airport has two terminal buildings that contain 24 gates. Management estimates that currently the gates are being used to 88% of capacity; the master plan design allows the gates to increase to 60 from 24.

San Antonio International Airport is primarily an origin and destination airport with over 90% of traffic origination and destination in nature and very little connecting activity. The air-trade area primarily consists of the four-county San Antonio MSA (Bexar, Comal, Guadalupe, and Wilson counties). The closest commercial airport is 66 miles away in Austin. The air service that is available in Austin is similar to the service provided in San Antonio, except that San Antonio provides international service and airfares are generally higher in Austin.

In 2002, San Antonio International Airport served 6.7 million passengers. The airport provides service through 13 airlines providing 116 flights daily, which are up from prior years. The airport provides some international service (only 3% of enplanements in 2002)—mostly to Mexico. Southwest Airlines is the largest carrier, accounting for 35% of enplanements of the total 3.3 million enplanements in 2002. The top three carriers have consistently been Southwest, American (19%), and Delta (14%) and account for 68% of enplanements.

Overall enplanements have grown at an average annual rate of 2.2% over the past 10 years (1993-2002). Much of the negative growth in 2001 and 2002 was a result of the effects of Sept. 11, and the slowing economy. However, the airport's recovery has been strong with overall 2002 enplanement levels only 92% of 2000's peak, and 2002 enplanements were down only 2.7% from the prior year. The 2.7% decline in 2002 was better than the national trend for all U.S. airports, which experienced a decline of 4.7% on the year.

Finances

The airport's operating revenues include landing fees, terminal rental fees, and certain reimbursable expenses from airlines. Airline revenues accounted for only 32% of airport system revenues. This is a result of the airport's dependence on other diverse revenues sources, such as parking, and food and beverage and retail concessions. Revenues from parking and concessions now account for 48.5% of total revenues. Parking, in particular, is important to the airport's overall profitability. Net parking revenues contribute 41% of the system's net revenues—all of which help to keep the airport's overall airline costs low. Debt service coverage in 2002 of 1.70x improved from 2001's level of 1.6x. This is a result of operating cost declines of 6% over the prior year. For the bonds backed by PFC revenues, the debt service coverage was 2.42x. Standard & Poor's calculates this debt service coverage by adding the available PFC collections and net revenues together and dividing by all outstanding debt service on the senior lien bonds and the PFC bonds.

Financial forecasts (2002-2011) provided in connection with the series 2002 bond issuance indicate that net revenues are anticipated to yield an average debt service coverage of 1.6x with a minimum of 1.5x. For the bonds backed by the combined pledge of PFC revenues and subordinate net revenues, the debt service coverage averages 2.21x and ranges from 1.91x-2.79x.

Airline costs per enplaned passenger at the airport are $4.10 and are forecasted to rise to only $4.78 with the issuance of additional debt over the next 10 years. Debt per enplaned passenger was historically low at only $29 in 2001. However, with bond issuances in 2002, debt per enplaned passenger grew to almost $60. When future general airport revenue bond and PFC-backed debt issuances are included, debt per enplaned passenger (based on 2002 passenger levels) could rise to as high as $88.

Capital Program

The airport's overall capital improvement plan for fiscal 2002-2011 calls for $426 million in expenditures. The main components are for terminal/gate expansion ($124 million), airfield improvements ($52 million), and roadway improvements ($19 million). The plan includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two new concourses with corresponding terminal space. The plan calls for increasing the gates from 34 gates by 2015. Additional projects in the plan include: terminal renovation of the existing facilities, additional public parking facilities (2,400 spaces), roadway improvements, and extension and improvements to two runways along with supporting taxiways and aircraft apron.

Financing of the project will come from passenger facility charges ($49 million for pay-as-you-go and $79 million from PFC debt), federal grant money $100 million, senior-lien debt ($117 million), and the airport's own funds ($81 million). The city received the authority to impose and use PFCs at the $3 level on five projects and to impose only on six additional new projects. The city's record of decision was issued on Aug. 29, 2001, and the city began on Nov. 21, 2001, to collect a $3 PFC per paying passenger enplaned.

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